

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 COME-00 TRSE-00 FEA-02 SCI-06

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UNCLAS SECTION 1 OF 2 VIENNA 0795

E.O. 11652: N/A

TAGS: ENRG, OPEC, OECD, AU

SUBJ: ENERGY: OPEC'S DR. KHENE DISCUSSES OIL PRICES

AND SHORTAGES

STATE ALSO FOR T/IEP

1. SUMMARY. IN JAN. 28 SPEECH BEFORE AUSTRIAN FOREIGN POLICY GROUP OPEC SECRETARY GENERAL KHENE DEFENDED RECENT OIL PRICE INCREASES, ASSERTING LAW OF SUPPLY AND DEMAND WOULD HAVE JUSTIFIED LARGER INCREASES AND THAT FURTHER SUCH INCREASES WOULD BE INEVITABLE UNLESS INDUSTRIALIZED COUNTRIES CONTAIN INFLATION AND PRICES OF THEIR EXPORTS TO THIRD WORLD. HE DENIED CHARGES THAT OPEC IS A CARTEL, DEFINING CARTEL AS PRIVATE INTERESTS ORGANIZED TO KEEP PRICES UP WHEREAS OPEC REPRESENTS PUBLIC INTERESTS AIMING TO KEEP THEM DOWN. HE PREDICTED THAT PETROLEUM SHORTAGE WOULD BE PERMANENT AND RECOMMENDED CONSERVATION AS WELL AS CONCERTED EFFORTS TO DEVELOP ALTERNATE SOURCES. HE ALSO CITED STATISTICS ON FUTURE ENERGY DEMAND. HE MADE NO DIRECT REFERENCE TO WASHINGTON ENERGY MEETING. END SUMMARY.

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2. FOLLOWING ARE HIGHLIGHTS OF HOUR-LONG SPEECH DELIVERED JAN. 28 IN FRENCH LANGUAGE BEFORE AUSTRIAN FOREIGN POLICY AND INTERNATIONAL RELATIONS ASSOCIATION BY DR. ABDERRAHMAN KHENE, SECRETARY GENERAL OF OPEC. FRENCH TEXT OF SPEECH BEING AIRMAILED TO DIRECTOR, T/IEP AND AIRPOUCHED TO PARIS/OECD. COPIES OF ENGLISH TEXT WILL BE FORWARDED AS SOON AS TRANSLATION AVAILABLE.

3. HIGHLIGHTS OF KHENE SPEECH:

HE RECALLED HISTORY OF OPEC SINCE 1959 WHEN OIL COMPANIES, WITH BLESSING OF THEIR GOVERNMENTS IF NOT AT THEIR EXPRESS REQUEST, REDUCED POSTED PRICES FROM \$2.08 TO \$1.90, AND REPEATED THE OFFENSE IN AUGUST 1960 WHEN, UNILATERALLY AND WITHOUT WARNING OR JUSTIFICATION, THEY LOWERED POSTED PRICE FROM \$1.90 TO \$1.80, LEAVING PRODUCING GOVERNMENTS AN AVERAGE REVENUE OF \$.080 PER BARREL. ONLY ONE JUSTIFICATION WAS PRESENTED: THE MARKET; LAW OF SUPPLY AND DEMAND FORCED THEM TO THIS REDUCTION, SUPPLY GREATLY EXCEEDING DEMAND.

IN THE FACE OF SUCH IRRESPONSIBLE CONDUCT, THE MOST IMPORTANT EXPORTING COUNTRIES AT THE TIME REACTED BY FORMING THEMSELVES INTO A "COMMITTEE OF SELF DEFENSE," AND CREATED OPEC. SINCE THEN THE OTHER (NAMED) MEMBERS HAVE JOINED THE RANKS.

GIVEN CONTEXT OF OPEC'S CREATION IT IS REMARKABLE THAT FOUNDERS WERE ANIMATED NOT ONLY BY INTENTION TO PURSUE INTERESTS OF PRODUCING COUNTRIES BUT ALSO THOSE OF CONSUMING COUNTRIES. IN FACT, OPEC CHARTER REQUIRES ASSURANCE OF "AN EFFICIENT, ECONOMICAL AND REGULAR SUPPLY OF PETROLEUM TO CONSUMING NATIONS." THIS SPIRIT IS STILL THAT OF OPEC, NOTWITHSTANDING ITS DETRACTORS, AND IS ONE REASON FOR THE BALANCE AND MODERATION ONE ALWAYS FINDS IN ITS DECISIONS, AND THE SECRET OF UNITY OF ITS MEMBERS.

BUT EVERYONE KNOWS THAT THOSE WHO BY THEIR
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DECISIONS HAD AFFECTED IN DRAMATIC MEASURE THE REVENUES OF SUCH POOR AND DEFENSELESS COUNTRIES WOULD ACCORD NEITHER SERIOUSNESS NOR IMPORTANCE TO THIS ASSOCIATION OF VICTIMS. IT IS A COMMON ERROR OF JUDGMENT TO UNDER-ESTIMATE THE CAPACITY FOR RESISTANCE OF THE DEFEATED ONES OF THE DAY.

POSTED PRICES HAD NOT BEEN LOWERED SINCE 1960, BUT

STILL THE VALUE OF OIL REVENUES NEVER CEASED DIMINISHING;
IT WAS NECESSARY TO PRODUCE MORE OIL IN ORDER TO BUY THE
SAME THINGS ONE NEEDED.

AT CARACAS IN DECEMBER 1970 A RESOLUTION WAS
ADOPTED TO REMEDY THE SITUATION AND THE AGREEMENT OF
TEHRAN (FEBRUARY 14, 1971) WAS CONCLUDED, FOLLOWED BY
SIMILAR AGREEMENTS OF TRIPOLI AND LAGOS, OF GENEVA
(JANUARY 20, 1972). THERE WAS THEN THE SECOND GENEVA
AGREEMENT (JUNE 1, 1973) FOLLOWING AMERICAN DOLLAR
DEVALUATION. MEANWHILE, THE PRODUCING COUNTRIES TOOK
ACTION TO ASSURE THEMSELVES OF A LARGER CONTROL OVER
THE PRODUCING ACTIVITIES OF THE COMPANIES, EITHER BY
ROUTE OF NATIONALIZATION OR PROGRESSIVE PARTICIPATION
IN THE COMPANIES' CAPITAL.

AFTER FAILURE OF THE LAST NEGOTIATIONS (OCTOBER 8,
1973), EVENTS PRECIPITATED AND CAME TO HEAD IN KUWAIT
ON OCTOBER 16, 1973 IN DECISION OF THE SIX GULF COUNTRIES
TO FIX "SOVEREIGNMENT" POSTED PRICES. THIS LAST STEP
MADE IT POSSIBLE TO CONSULT DIRECTLY MARKET FORCES IN
ORDER TO LEARN VALUE OF THIS MERCHANDISE AND OBTAIN
FAIR REVENUES FOR IT. HOWEVER, SUCH A SIMPLE AND
NATURAL CONCLUSION OF EVENTS IS FAR FROM BEING ACCEPTED
BY EVERYONE. STRANGE REAR GUARD ACTIONS
CONTINUE, AND WILL CONTINUE, BY THOSE WHO SEE
THEIR PRIVILEGES IMPAIRED AND THEIR POWER SHAKEN.

AN "INFAMOUS" ACCUSATION, REPRESENTING OPEC AS A
CARTEL, "ALMOST EQUIVALENT TO AN ASSOCIATION OF
MALEFACTORS," NEEDS REFUTING. ONE MUST DIFFERENTIATE
BETWEEN PRIVATE INTEREST GROUPS TO WHICH TERM "CARTEL"
HAS BEEN JUSTLY APPLIED AND THOSE WHO MANAGE THE PUBLIC
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INTEREST, AS IS CASE OF COUNTRIES GROUPED IN OPEC.
ALSO, IDEA OF CARTEL IS APPLIED TO AN ENTENTE OF BUSINESS-
MEN WHO, IN AN ECONOMY OF ABUNDANCE, AGREE NOT TO SELL
BELOW A FIXED FLOOR PRICE. OPEC'S INTERVENTION IS
THE OPPOSITE; INTERVENING IN A SITUATION OF SHORTAGE
IT TENDS TO RESTRAIN PRICES FROM RISING AS RAPIDLY AS
SUPPLY AND DEMAND WOULD REQUIRE.

THE ENERGY CRISIS HAS TWO ASPECTS: HEAVY CONSUMPTION,
DIRECTLY GENERATING THE PRESENT STRAIN ON THE MARKET;
THE OTHER MORE GLOBAL ASPECTS OF THE SOURCES OF ENERGY
THEMSELVES AND PERMITS CONCLUSION THAT THIS STRAIN
TENDS TO BE PERMANENT.

THE SCARCITY OF OIL WAS NOT DUE TO BOMBARDMENT OF

PORT TERMINALS IN MEDITERRANEAN, AND DECISIONS OF ARAB STATES TO REDUCE THEIR OIL EXPORTS. IT WAS REVEALED TO PUBLIC FOLLOWING RUPTURES OF STOCKS IN U.S. IN WINTER 1972. IN THAT INSTANCE REACTION WAS TO SPEAK OF LACK OF FORESIGHT, EVEN ORGANIZED IMPROVIDENCE FOR SPECULATIVE ENDS. INDEED, CERTAIN WORLD-RENOWNED EXPERTS THEN CLAIMED THAT ALL WAS CONTRIVED BY THE INTERNATIONAL COMPANIES WITH COMPLICITY OF PRODUCING COUNTRIES--THE ARAB COUNTRIES SPECIFICALLY--TO OBTAIN HIGHER PRICES. SIMILAR THEORIES AIMED AT MORE POLITICAL THAT ECONOMIC ENDS ARE MISCARRYING TODAY.

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INFO OCT-01 EUR-25 ISO-00 COME-00 TRSE-00 FEA-02 SCI-06

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STATE ALSO FOR T/IEP

THE EXPERTS SEEM AGREED THAT AT RATE OF PRESENT CONSUMPTION, OIL PRODUCTION IN YEAR 2000 WILL HAVE TO BE IN ORDER OF 14 BILLION TONS OF PETROEUM EQUIVALENT (PETROLEUM AND NATURAL GAS), I.E., NEARLY FOUR AND HALF TIMES CONSUMPTION OF 1970.

ONE FORESEES THAT OIL IN YEAR 2000, I.E., AT THE MOMENT WHEN IT WILL ALMOST HAVE DISAPPEARED, WILL STILL COVER 69 PERCENT OF ENERGY NEEDS. THIS IS PURELY AND SIMPLY SENSELESS. IN FACT, IN THE HYPOTHESIS OF WORLD ENERGY CONSUMPTION JUST EVOKED, THE SHARES OF COAL, NUCLEAR ANDHYDRAULIC ENERGY ARE THE FOLLOWING,

IN ABSOLUTE AND PERCENTAGE TERMS:

GLOBAL DEMAND FOR ENERGY

(MILLIONS F BARRELS PER DAY OF PETROLEUM EQUIVALENT)

	1970	1975		
	Q. PERCENT	Q. PERCENT		
PETROLEUM AND GAS	65.40	64.10	88.60	68.16
	3,270)#	(4,430)#		
NUCLEAR ENERGY	0.60	0.58	4.00	3.08
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COAL	30.40	29.82	30.40	23.38
HYDRAULIC ENERGY	5.60	5.50	7.00	5.38
TOTAL	102.00	100.00	130.00	100.00

	1985	2000		
	Q. PERCENT	Q. PERCENT		
PETROLEUM AND GAS	137.0	68.5	285.0	69.0
	(6,850)#	(14,250)#		
NUCLEAR ENERGY	15.0	7.50	62.0	15.0
COAL	38.0	19.0	56.0	13.0
HYDRAULIC ENERGY	10.0	5.0	12.0	3.0
TOTAL	200.00	100.00	415.00	100.00

#) TRANSLATED INTO MILLIONS OF TONS PER YEAR.

IF A SINGLE CONCLUSION IS TO BE DRAWN IT IS THAT A REARRANGE-
MENT OF THE VARIOUS ELEMENTS OF THE FORECAST IS NEEDED. TWO
POSSIBILITIES ARE CONCEIVABLE: MAINTAIN FORECAST LEVEL OF
CONSUMPTION, IN WHICH CASE SHARES OF COAL AND NUCLEAR ENERGY
HAVE TO INCREASE #HYDRAULIC ENERGY IS INELASTIC AND SOLAR AND
HYDROGEN ENEGGY ARE STILL IN STAGE OF BASIC RESEARCH).
SECOND POSSIBILITY--REDUCE CONSUMPTION AND PORLONG LIFE OF
PETROLEUM. THIS SEEMS WISEST.

TRANSLATED INTO TERMS OF ACTION, IT WOULD AIM AT REALIZATION
OF THREE ESSENTIAL GOALS: 1) DECIDE ON "RENDING REVISION"
OF MODES OF ENERGY CONSUMPTION, FOUNDED ON NOTION OF TREAT-
ING ENERGY WITH SAME RESPECT AS OUR ANCESTORS RESPECTED FIRE
OR CERTAIN PEOPLES TODAY RESPECT BREAD BECAUSE THEY ARE
HUNGRY OR WATER BECAUSE THEY ARE THIRSTY; 2) ACHIEVE A DRAMATIC
ACCELERATION OF RESEARCH AND MOBILIZATION OF NEW SOURCES OF
ENERGY. WE HAVE SAID BEFOER AND REPEAT TODAY THAT CONSUMING
NATIONS SHOULD POOL THEIR SCIENTIFIC AND FINANCIAL RESOURCES
TO SPEED UP RESEARCH. THE PRODUCING COUNTRIES THEMSELVES SHOULD
CONTRIBUTE--AND THEY ARE DISPOSED TO DO SO--IN THE COMMON EFFORT.
3) PLAN USE OF OIL IN ORDER PROLONG ITS LIFE.

EVERY ATTITUDE FAVORING CONSERVATION OF WORLD OIL RESERVES SHOULD BE APPLAUDED, NOT ONLY IN THE PRODUCING/EXPORTING COUNTRIES BUT ALSO IN THE PRODUCING/CONSUMING NATIONS. ONE BEGINS TO SUSPECT THE LATTER OF WANTING TO DRAIN DRY THE WELLS

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OF OTHER BEFORE PUMPING THEIR OWN. THAT IS WHY ANY INITIATIVE ON A PLANETARY SCALE TO REMEDY THE PRESENT SITUATION--TO BE CREDIBLE--SHOULD FIRST INSURE THE HONESTY OF INFORMATION ABOUT EVERYONE'S RESERVES.

WHATEVER THE MULTIPLE CAUSES, IT SEEMS WE HAVE ENTERED A NEW PETROLEUM ERA, AN ERA OF PERMANENT STRAIN, WHICH LEADS NECESSARILY TO RISING PRICES OF THIS RAW MATERIAL.

IT IS NOT WRONG TO LOOK WITH SATISFACTION ON RISING OIL PRICES. A TOO-LOW PRICE PERMITTED GREAT WASTE; A HIGHER PRICE SHOULD PERMIT MORE APPROPRIATE USAGE AND CONSERVATION. REAL MOBILIZATION OF ENERGY SOURCES WILL NOT BE ACHIEVED UNTIL PRICE OF OIL HAS CLIMBED TO A LEVEL SUFFICIENT TO MAKE OTHER ENERGY SOURCES COMPETITIVE.

OPEC DOCTRINE IS VERY CLEAR AND SIMPLE WITH REGARD TO PRICES. AFTER A LONG PERIOD OF STAGNATION OF POSTED PRICES THE PRODUCING COUNTRIES DEMAND JUST COMPENSATION FOR DETERIORATION OF PURCHASING POWER. FAILURE OF NEGOTIATIONS WITH THE OIL COMPANIES LED OPEC COUNTRIES TO SUBMIT THEIR MERCHANDISE TO JUDGMENT OF LAW OF SUPPLY AND DEMAND. THEY HAVE NOT YET COMPLETELY DONE SO. "THAT'S WHY WE SAY THAT IN FIXING THE REFERENCE VALUE AT \$7 A BARREL ON DEC 22, 1973 IN TEHRAN, CONFIRMED AT THE GENEVA CONFERENCE OF JAN 7, 1974, OPEC MINISTERS WERE AWARE OF THE MODERATION AND WISDOM OF THEIR DECISION." IN OTHER TERMS, IN SETTING \$7. A BARREL, THEY KNEW THE MARKET VALUE WAS WELL ABOVE THIS FIGURE. THEY KNEW THEY CONSENTED TO GREAT SACRIFICES IN FAVOR OF ALL THE CONSUMING COUNTRIES, PARTICULARLY THE INDUSTRIALIZED COUNTRIES WHICH CONSUME 85 PERCENT OF THEIR PRODUCTION. IN EXCHANGE THEY EXPECT INDUSTRIALIZED COUNTRIES TO DO SOMETHING FOR WORLD ECONOMIC ORDER, NAMELY, MASTER THE INFLATION THEY ARE EXPORTING EVERYWHERE, CREATING MORE AND MORE INTOLERABLE CONDITIONS FOR THE POOREST COUNTRIES.

IF NOTHING IS UNDERTAKEN IN THIS FIELD, THE OIL PRODUCERS/EXPORTER CANNOT LONG CONTINUE TO ASSUME ALONE THE SAME SACRIFICES AND SHOULD THEN INCREASE THEIR OIL PRICE.

OPEC HAS NO WISH TO RUIN ECONOMIES OF INDUSTRIALIZED COUNTRIES.

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Decaption Note:
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